

Audit's NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS

Realty Trust Review

August 8, 1975

VOL. VI, No. 15

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VALUE GUIDE TO SEVEN TRUSTS REVIEWED THIS ISSUE

Trust	Rel. Appeal	Port. Yield	-12Mo.Port. Last	Chng.- E.Next	Lever. Ratio	Price	Ann. Yield**	Div. Reinv.	Page
C.I. Realty	5*	16.24%	-5%	0%	2.91	3.88	0.0%	No	3
First Cont'l	3	12.30	4	2-4	1.24	6.75	15.4	No	3
GREIT Rlty.	3*	13.70	-27	0	3.23	4.63	8.6	No	7
Investors Rlty.	5*	13.33	2	-3	2.50	4.88	0.0%	No	4
JMB Rlty.	3	10.20	12	2-4	1.59	12.00	15.0	No	5
Miller (Henry S)	3	13.81	2	2-4	2.28	8.75	9.1	No	8
Sutro	4	8.49	-10	-8	1.98	4.75	0.0	Yes	6
AVERAGE		12.58%	-3%	-0.3%	2.25		6.8%		

**Based on annualized latest qtr. #Trustees may forego dividend in August.

REIT ACCOUNTING: A CONFUSING TRANSITION FOR INVESTORS

The first earnings reports following spotty adoption of controversial new accounting rules on loan loss provisions are turning up some confusion and contradictions to confound investors in shares of the highly leveraged and deeply troubled short-term mortgage REITs. The new rule requires trusts to deduct estimated holding costs, including the discounted value of a trust's cost of capital, in calculating loss reserves for troubled real estate loans (see RTR, June 13 and 27).

Now a second element of the new accounting is surfacing: part of the holding cost portion of the loss reserve is taken into income in subsequent quarters (deemed the best way to keep present shareholders from being harmed by events in prior quarters). The confusing result so far has been to produce sharp swings from massive losses to small profits. Continental Mortgage Investors provides a prime example: CMI reported a stunning \$106.6 million loss (including \$31 million holding costs) in its March fiscal year-ending quarter, equal to \$5.12 per share followed by a 5-cent profit in the June quarter. Many other trusts are expected to follow this pattern. Shareholders are confused because the rule for REITs has been that earnings must be paid to shareholders as dividends. Now that's not necessarily so. Reason: the large additions to loss reserves are not deductible for income tax purposes and so the trusts will continue reporting red ink to IRS and thus aren't legally bound to make dividend payments. In extreme cases such as CMI, this now-you-see-it, now-you-don't earnings pattern could stretch for years.

While many large troubled trusts are already switching to the new method, the National Assn. of Real Estate Investment Trusts is seeking to have the Financial Accounting Standards Board, the industry's highest rule making body, study the proposal very carefully. NAREIT President Sylvan Cohen has told the FASB that the proposal to apply the tough rules only to REITs "would create a serious problem of discrimination and more investor confusion."

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The Accounting Standards Board of the AICPA acknowledged that "the conclusions may also be appropriate for companies which are not REITs" in sending its position statement to the FASB. However, the FASB has evidenced a distaste for dealing with relatively narrow industry questions. In expectation that the FASB will take no action, many accounting firms are already beginning to require their clients to follow the holding cost rule as the accounting profession's final statement on the matter.

Topping off the confusion is the ambivalent stand of the stock exchanges. The NYSE and ASE are now discussing continued listing with a number of REITs falling below net worth requirements after the new rule is applied. The latest is Capital Mortgage Investments, whose net worth fell to about \$6-7 million following preliminary \$14.4 million loss in the June quarter. Exchange officers have told some trust officers they may not recognize the new accounting rule, although this is said not to be a firm or final decision.

OUT OF THE BOMB SHELTERS: SEVEN LOW PRICED SPECULATIONS FOR RECOVERY

The deepest real estate depression since the 1930's is slowly turning into a recovery that could take two-three years at best. In this climate managers of a small band of REITs are tiptoeing from the bomb shelters, some scarred but none fatally wounded. We believe the worst of the bad news is behind for all seven and review here these seven trusts whose low-priced shares are suitable for speculation on intermediate - and longer-term recovery. If anything, the experiences of these trusts proves that turning a REIT around takes longer than most investors think. This places a premium on patience.

The seven have some common characteristics that helped them survive: 1) Low leverage. They average a 2.25-to-1 leverage ratio, well below industry averages. Five of the seven are equity or equity-mortgage combination trusts with high percentages of fixed-rate mortgages secured by property, the safest kind of leverage. The two short-term mortgage trusts rely 100% upon short-term bank loans. As a result, all have avoided bank restrictions on operations. 2) Clean capitalization. Five rely solely on shareholder's equity for their capital base; of the remaining two, JMB Realty has some warrants and Sutro Mtg. some convertibles and warrants. This means recovery benefits should flow largely to shareholders. 3) Low problem loans. They average 7½% non-earning investments, vs. the 42% industry average. 4) Dividend capability. Four of the seven currently make quarterly payouts and we do not foresee any omissions in the group. One, Investors Realty, may defer payouts later this month but resumption should come relatively quickly. The two non-payers, C.I. Realty and Sutro Mtg., could be back on quarterly payouts within four to six quarters.

This group numbers some trusts which look interesting for various degrees of speculative recovery and moderate growth plus income. Most are already regarded above average among REITs by virtue of selling at less of a discount from stated book value. This is certainly justified for the smaller equity types reviewed here. Not only do they have fewer problems but in turn these problems are not the industry's disasters.

While not making a blanket across the board recommendation to buy every one of these situations, they all do have some virtues that bear watching for some positive purpose down the road. JMB Realty Trust has shown itself solid and offers dividend appeal plus further eventual modest appreciation. Investors Realty at 60% below book value has significant recovery potential if it is truly at the verge of squaring away its problems as it appears to be. Henry S. Miller is another well regarded equity type but still sells at half of book value, giving it speculative possibilities in closing the gap as a decent record lengthens and raises market confidence. Equity oriented CI Realty Investors holds little investment market regard selling at 20% book value. This is partly deserved, given the low cash flow being obtained from properties. It is probably premature to buy full positions now, given the time required to increase earning power; at some time though, the shares should have significant recovery potential if improvement comes into sight.

One important note: Statistical records for most were included in the July 11 issue of REALTY TRUST REVIEW. The recent record for the others is contained in this issue.

C.I. REALTY INVESTORS (3-7/8--NYSE-CIX) FY Feb. 28/29

Portfolio Dynamics: This equity trust is trying to recoup from an ill-fated venture into mortgage lending which ended dividends. The portfolio has decreased 4.8% the past year and no growth is expected in the next year. Some decrease in investments is likely since the trust has decided to stop making construction loans, the source of recent losses. Commitments total \$8 million but only about \$2-3 million are expected to fund since the remainder is on presently delinquent loans. The portfolio at May 31, 1975 amounted to \$177.3 million, with 86% in real estate owned and 14% in mtg. By type of property real estate owned was 64% apartments, 31% office buildings and 5% shopping centers. Apartment holdings comprise 27 projects having 6,961 units with overall occupancy of 93%. The majority of holdings produce a positive cash flow. Office buildings consist of three New York City buildings bought from the Uris brothers (485 Lexington Ave., 441 Lexington Ave., 750 Third Ave.). Their total 1.5 million sf. of space is now 99% rented. C.I. Realty also owns the 462T sf. Truman Corners shopping center in Grandview, Mo., which is about fully leased. Overall equity holdings are producing about a 6% cash on cash yield, below expectations but still solid.

The mtg. section of the portfolio is giving C.I. Realty its headaches. Mtg. loans amounted to \$24.9 million at May 31, after reduction during this latest quarter by repayment of a \$3.5 million interim loan. Holdings were reduced further by subsequent sale of a \$3.7 million participation.

C.I. Realty's mtg. portfolio contains three non-earning loans for \$7.08 million and one \$1.8 million property acquired through foreclosure. Non-earning loans consist of a \$1.89 million loan on 85-90% completed Duchess Mall in Fishkill, N.Y., now in foreclosure; a \$3.34 million participation in Colony North, a high-rise apartment complex in Fort Lee, N.J., under construction and acquired through foreclosure July 30; a \$1.81 million loan on garden apartments in Islip, N.Y. where cash flow is positive for one building and only slightly negative for the other building. The property acquired through foreclosure is a 247-unit condominium in Ocean City, Md., now 100% complete with 52 units sold. A new agent has just been hired to begin a selling program.

Financing: C.I. Realty is funded 26% by capital and 74% by non-convertible debt. Capital of \$46.1 million is all equity with 2.61 million shares. Debt of \$133.9 million is 29% short-term banks lines and 71% mtg. Some 21% of total funds float with market rates so that C.I. Realty is not greatly affected by swings in short-term rates. The trust is negotiating to convert its bank lines (presently at \$45 million) to a one-year credit agreement. Sponsor: City Investing Co., a conglomerate which also sponsors C.I. Mortgage Group, a short-term mortgage trust.

Results & Outlook: Although C.I. Realty lost \$0.01/sh. during the May 31 qtr., cash flow amounted to \$0.11/sh. Because of their conservative stance, trustees did not declare a dividend out of cash flow. Management cannot estimate when dividends will be resumed; we estimate 4-6 quarters. Mortgage holdings must be disposed of and negative leverage ended before dividends can resume. Proposed conversion into a business corporation (Celadon Corp.) is presently in abeyance and it appears CIX will maintain REIT status, at least until litigation with dissident shareholder Maurice Clairmont is settled. Loss reserves now appear adequate and another large addition does not appear likely. Equity portfolio is solid and will continue to contribute to earnings. Shares carry a No. 5* ranking and are a good speculation for longer-term recovery to earning and dividend paying status. (VCK)

FIRST CONTINENTAL REAL ESTATE INVESTMENT TRUST (6-3/4--OTC-FCRES) FY Feb. 28/29

Portfolio Dynamics: This regional short-term trust has stayed with a policy of making loans within areas of its expertise and as a result remains one of only six short-term REITs making money and paying regular dividends. Its portfolio in the past twelve months increased 4% although funded assets decreased the past two quarters.

Growth should be modest in the next twelve months and management anticipates most new loans will be in residential construction. A majority of loans are in Texas with some in Colorado and Oklahoma. Heavy concentrations are in the Houston and Dallas-Fort Worth areas, both resistant to the present recession due to the energy related industry. On Feb. 28, the portfolio by type was 45% construction, 28% commercial land development, 18% residential land development, 8% land acquisition and 1% junior mortgage. By project type, construction loans are 34% shopping centers, 29% single family, 18% office building, 11% apartments and 8% others.

At Feb. 28, the trust had total non-earning assets of \$5.3 million or 11.4% of total investments. Included in this amount was \$326T in eleven completed houses near Dallas-Forth Worth acquired through foreclosure, and \$1.64 million in 19 acres in Houston acquired after the borrower defaulted. Non-accruing loans included \$1.08 million construction loans on 21 completed homes in Houston (5) and Dallas (16). Since Feb. 28, three homes were paid off. Non-earning loans also include a \$945T construction loan on an apartment complex in Galveston, Texas; \$231T second mortgage on this property; a \$994T residential construction loan on 37 acres in Dallas, where the borrower declared bankruptcy. A second mtg. of \$90T on a 182 unit apartment complex in Houston is also non-accruing. About \$520T of non-accruing loans were disposed of in the May qtr. so that total non-accruing and non-earning loans amounted to \$4.8 million, or 11.2% of investments. This 11% figure compares well with an average of 42% for all trusts and 54% for short-term trusts.

Financing: First Continental is funded 45% by capital and 55% by non-convertible debt. Capital of \$21.7 million is all equity with 2.11 million shares. Debt of \$26.9 million is about all short-term bank lines. About 54% of funds float with market rates so that interest rate changes can affect earnings. Bank lines on Feb. 28, amounted to \$32.5 million with twelve banks. Lines were at 0.5% over prime plus compensating balances. Sponsor: First Continental Corp., Texas mtg. banker. Trustees, officers, and their families own 4.5% of trust shares.

Results and Outlook: Gross revenues for the May qtr. were off 21% from Feb. and this lowered earnings and dividends. Lower gross revenues were largely due to lower fundings and more non-earning loans. No great gain in earnings and dividends is expected near term, since fundings growth will be minimal. Shares therefore hold their average ranking. (VCK)

INVESTORS REALTY TRUST (4-7/8--ASE-IRT) FY Nov. 30

Portfolio dynamics: IRT has overcome collapse of its largest customer and thus averted major troubles for 29% of its portfolio. Management is now concentrating upon nursing these and a few other problem properties to higher profitability. Portfolio holdings gained 2% the past year and repayment of some mortgage loans along with commitment run-off can be expected to hold total fundings level for the near-term. The accent is on upgrading profitability for now. The combination portfolio totaling \$60.2 million at May 31 is 66% equity ownership of properties, 8% subordinated land purchase/leasebacks; 21½% mortgages, and 4½% acquired property. Equity and land leasebacks by property type are 71% apartments (with 2,191 units owned directly and 1,076 units under leaseback), 27% shopping center and retail (with 486T sf owned and 1.17 million sf on leaseback), and 2% office buildings. Holdings are generally located in the Southeast. Real estate owned represents net investment of \$13.1 million over \$26.5 million first mortgages. The \$4.9 million land on leasebacks is subject to \$28.6 million prior first mortgages, increasing off-balance sheet leverage. Outstanding balances of mortgage loans made by IRT have fallen 23% over the past half-year to \$12.9 million, reflecting paybacks of three large construction loans. Remaining loans are largely land and development loans, second mortgages on completed properties, and standing loans. Commitment levels are low.

IRT has completed takeover of seven properties valued at \$18.7 million following American Cyanamid's decision to divest its development subsidiary, Ervin Industries.

IRT had bought the properties (three apartments with 758 units, three shopping centers with 238T sf, one office building) and leased them to Ervin. The trust has now hired new local management and reports the projects cash-flow positive, including the lowest occupancy apartment, Club Candlewood in Atlanta. Total yield is below that obtained from the Ervin net leases and will limit earnings until return is built up. Two foreclosed properties for \$2.7 million present smaller problems. The \$1.47 million participation in Mill Creek Club condominiums in Nashville resulted from a slow local market; lenders may upgrade amenities to boost sales. The \$1.25 million loan on a golf course near Charlotte, N.C., foreclosed earlier this year from Ervin, is operating profitably and trust is seeking to collect on Ervin's guarantee. Non-accruing loans include a \$700T participation in apartments in Tuscon, Ariz. (partially complete but renting strongly) and \$1.3 million standing loan on the Escape Hotel, Fort Lauderdale, where renovation funds may be advanced to turn the hotel around. Overall 7.9% of investments are not accruing interest.

Financing: Trust is funded 29% by equity (with 1.58M shares) and 71% non-convertible debt. Debt of \$45.0M is 59% fixed mortgages on property and 41% bank lines. Trust recently completed a \$20.5M bank agreement at $\frac{1}{2}\%$ over prime plus compensating balances. The agreement lets IRT pay dividends equal to net cash flow using taxable income as its base (such income may vary from net income reported to shareholders). Sponsor: Independent; the adviser is owned by Crescent Properties, Nashville realty firm.

Results & Outlook: May qtr. earnings of 1-cent/sh. were down from 4-cents the prior quarter, and net cash flow of 15-cents was down 18% from February. Heavier operating expenses on the Ervin properties accounted for the decline. While management is optimistic that the major Ervin crisis is behind and properties may begin recovering, they indicate trustees may forego consideration of a quarterly dividend later this month (vs. 20-cents paid in the May qtr.). The shares are being ranked No. 5* indicating an uncertain dividend outlook but longer term values in the \$11.40 book value after recent provisions for possible losses.

JMB REALTY TRUST (12--OTC-JMBRS) FY Aug. 31

Quar.	Port	Non-earn Inv.	EPS Prim.	Cash Flow	Div.	-Price range-	Yld. range
8/74	\$23.1M	0%	\$0.46	\$0.51	\$0.44	\$10.25-7.75*	\$22.7-17.2%
11/74	23.1	0	0.43	0.49	0.42	10.50-6.00	28.0-16.0
2/75	24.3	0	0.44	0.49	0.43	12.00-7.50	22.9-14.3
5/75	24.5	0	0.45	0.51	0.45	11.00-9.50	18.9-16.4

*Unit prices

Portfolio dynamics: In the past year the portfolio increased 12% but not much growth is expected in the next year since the market precludes additional financing. Unfunded commitments presently amount to \$3.4 million. At May 31, the portfolio by loan and investment type was 54% wrap-around loans, 18% real estate owned, 17% land leasebacks, 5% construction and development, 3% each other short-term first mtg. and junior loans. Property type is 56% apartments, 35% shopping centers and office buildings and 9% mobile home parks. Investments are in ten states with some concentration in Texas and Calif. The one equity investment is an apartment in Las Vegas, Nev. where occupancy is about 95% and the property doing well. A year-end audit is approaching at Aug. 31, but management is confident that auditors will not require adjustments on loss provisions. There are no problem investments and exposure to potential problem areas is small.

Financing: JMB is funded 39% by capital and 61% by non-convertible debt. Capital of \$9.3 million is all equity with 510T shares. Debt of \$14.77 million is 39% bank notes and 61% mtg., so only 24% of funds float with market rates. JMB has bank lines totaling \$8 million, of which \$4 million is at $\frac{1}{4}\%$ over prime with 15% compensating balances and \$4 million at 125% of prime and no balances. Sponsor: JMB Realty Corp., a Chicago real estate company that runs about \$350 million of real estate properties.

JMB Realty Corp. and trustees own about 5% of trust shares.

Results & Outlook: Although May qtr. gross revenues were down due to less commitment fee income, lower interest costs and expenses allowed earnings, cash flow and dividend increases. Near term results should remain about level with the May qtr. since lack of significant fundings growth will hold back bigger gains. Shares maintain their 3 ranking based on quality of holdings, management capability and anticipated steady earnings and dividends. (VCK)

SUTRO MORTGAGE INVESTMENT TRUST (4-7/8--NYSE--SUT) FY Mar. 31

Portfolio dynamics: Fundings declined 10% over the past twelve months to \$101M in June with the drop coming in the last six months. Exhibiting one of the best controlled portfolio levels among construction lending trusts during the recent cycle, Sutro reduced its unfunded commitments to \$4.5M and standby commitments to \$7.6M. The only standby likely to be funded is an existing construction loan. Thus fundings should shrink perhaps another 8-10% over the next six months. The portfolio could then turn up again in 1976 given the right real estate conditions and bank credit availability. The portfolio is California oriented with 57% of holdings with the rest scattered in 14 other states. By type, holdings were 29% apartments, 23% office buildings, 19% motel & hotel, 11% industrial, 10% condominium, 6% retail and 2% long term. About 25% of holdings float with prime. The trust is not third-party takeout oriented as long standing practice of the 11-year old trust and 30-year old sponsor has been to successfully complete projects for which the developer normally found financing.

Non-earning loans apparently peaked in Dec. 1974 at 25% of investments falling to 19.3% in March 1975 and 18.5% in June. That was more impressive against declining total assets. Most problems appear well controlled and soluable, without great loss. To begin with, projects are substantially completed, one indication being unfunded commitments are only 4% of invested assets. The only real difficulty appears to be the \$4M participation in the 95% vacant office building, Blue Hill, 30 miles outside New York City. A merchandizing effort is underway but the question is how much can be salvaged and when. Others include 96 condominium units for \$6.5M in three Beverly Hills, Calif. projects, acquired in 1974, which are now starting to close, and a 224 unit motel in Sparks-Reno, Nev. which is cash flow positive and appears saleable. The only loan with a real completion problem is for \$2.4M in a 165 unit motel in Silverthorne, Col. now scheduled for completion this Nov. in time for the skiing season. This loan is in process of foreclosure. A 70% participation for \$1.1M in a Zephyrhills, Fla. shopping center is in final stages of construction. The trust now has full title and there is some cash flow. Title to a \$1.8M apartment building in Oklahoma City, Okla. was obtained in July and is 83% rented. Since June, two properties became classified as non-earning when developers filed bankruptcy, although the projects are profitable and no loss is anticipated. On the plus side, title was recently acquired to a project in foreclosure and became earning. Problem loans may edge higher this quarter but should continue trending downward over the year.

Financing: The trust is funded 53% capital and 47% non-convertible debt. Capital of \$57M is 63% equity with 2,322,118 shares and 37% convertible debentures: 6-3/4 of 1991 and 6-3/4 of 1982. Straight debt of \$51M is 75% bank notes and 25% commercial paper, all now floating with prime representing 43% of total funds. Debt will be further reduced over the next six months. It was already reduced \$4M in the June quarter. The trust is holding preliminary negotiations with its banks, California majors, to possibly begin increasing borrowing in June 1976. Sponsor: Ralph C. Sutro Co., California based mortgage banker.

Results & Outlook: Share earnings increased to \$0.08 in the June quarter from \$0.06 in March due to slightly lower problem loans and lower interest rates that prevailed. This was relatively good performance among construction lending trusts. The trust has come through this most difficult real estate cycle exhibiting the

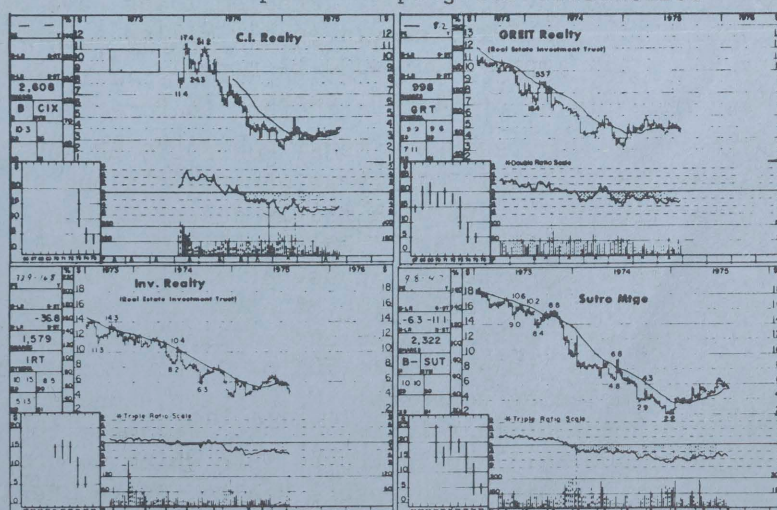
success of its lending concepts (no land or recreational loans and modest condominium exposure), good controls as proven by limited cost overruns, conservative financial ratio of under 2-to-1 total debt to straight equity, and perhaps most important under recent conditions, ability to deal with income properties forced to take under foreclosure. Most mistakes appear readily manageable with time required to ascertain degree of salvageability of motels. The trust may have benefitted from concentration in California which apparently suffered fewer excesses than the rest of the nation but this does not minimize a good job. Although no dividend was paid in the June quarter pending more consistent profitability in a still difficult environment, it appears that modest payments will be made later in keeping with at least nominal earning power. Even nominal profit and payout should put some cushion under the shares at this depressed level. The shares are being upgraded to 4 for relative appeal reflecting some dividend and speculation on some ultimate recovery for a trust that may have established viability. (BS)

GREIT REALTY TRUST (4-3/4--ASE-GRT) FY Oct. 31

Quar.	Port.	Non-earn.	EPS	Cash Flow	Div.	-Price range-	-Div. yield-
7/74	E\$59.8M	17.0%	d\$0.28	d\$0.03	\$0.10	\$8.50-6.13	6.5-4.7%
10/74	43.5	0.8	d2.31	d2.31	0.10	6.38-4.13	9.7-6.2
1/75	E43.5	0.8	0.18	0.31	0.10	6.00-3.25	12.3-6.6
4/75	E43.5	0.8	0.14	0.26	0.10	5.88-3.38	11.8-6.8

Portfolio dynamics: One of the oldest equity trusts, GREIT now appears to have recovered from major misadventures into mortgage lending, land/leasebacks and joint venturing. These problems led to a 75% dividend cut since 1973 and a final big-bath writeoff which brought a \$2.45/share loss in the final quarter of fiscal 1974. The trust returned to profitability the last two quarters and should be profitable for the full year. Holdings at October 1974 (said to be little changed now) were 90% property owned, 9% mortgages, and 1% land acquired in foreclosure. Property holdings are 51% shopping centers, 36% office buildings and urban stores, and 14% apartments and land. GREIT's two major holdings, totaling 40% of investments, 475T sf Hillside Shopping Center in Millside, Ill. and 560T sf Northside Shopping Center near Miami, are both generating overage rents. Cash returns from most other properties, notably Talbott Towers in Dayton and Barnett Bank Bldg. in Tallahassee, Fla., are meeting expectations. Mortgage loans were generally made with an option to buy equity but trust has found this a disappointing route for equity purchases and only four large mortgage loans remain.

Early in 1973 the land tenant for 10 Houston apartment projects encountered difficulties and GREIT was forced to take over about 1,350 apartments in 10 projects in Houston to protect its \$2.15 million land position. The trust assumed \$10.5 million mortgages in the \$13.5 million package. During fiscal 1974 the trust finally sold the apartments at a loss of \$1.8 million. GREIT also wrote off two other troubled investments in fiscal 1974: the \$870,000 leasehold investment in the Hilton Inn complex in Lancaster, Pa. and the \$245,000 second mortgage on Bay Court shopping center in Dover, Del. A \$367,000 investment in recently foreclosed



Charts courtesy R.W. Mansfield Co.

land in Philadelphia is under sale contract for slightly over the book value, and the trust is uncertain what will happen when a \$500,000 second mortgage on a New Jersey shopping center matures in December. These problems are minor compared to the Houston apartment disaster, which brought \$1.9 million operating losses along with the capital loss. A consultant was recently hired to help develop and upgrade certain investments.

Financing: Trust is financed 24% by equity (with 998T shares) and 76% by fixed-rate debt. Debt of \$32.2M is 90% in secured mortgage loans and 10% in bank loans. Banks recently increased the trust's interest rate to 2½% over the prime rate; bank loans have now been pared to \$1.5 million and further reductions are planned.

Sponsor: Independent and self-administered. **Recent results and outlook:** The recent return to profitability is most encouraging and while the portfolio has a few soft spots, major holdings have survived the real estate recession with little damage. Trustees are concentrating upon building liquidity and repaying bank debt before increasing the dividend, but some uptick in payout is an intermediate-term possibility. The shares are being upgraded to No. 3* as a longer-term speculation on dividend increases and price recovery toward the \$9.98 book value. (KDC)

HENRY S. MILLER REALTY TRUST (8-3/4--OTC-HSMTS) FY Feb. 28/29

Portfolio dynamics: The portfolio of this regional equity trust grew 2% over the last year and on May 31 was 69% real estate owned and 31% mtg. loans. Modest growth is expected in the next year, mostly in real estate owned with emphasis on shopping centers. Commitments are \$1.4 million. Real estate owned by property type is 70% shopping centers, 23% office buildings, 4% warehouses and 3% restaurants. Occupancy at shopping centers and warehouses is 100%, while office buildings are 90% occupied. Mortgage loans by type are 67% land and development, 19% intermediate and 14% junior. With the exception of one property in Kansas and another in Oklahoma, all loans and real estate are located in Texas. The portfolio contains \$2.5 million of property all in Texas acquired through foreclosure and a \$500T land loan in Texas on a cash basis. These loans total 9% of the portfolio.

Financing: Miller is funded 30% by capital and 70% by non-convertible debt. Capital of \$10.3 million is all equity with 560T shares. Debt of \$23.4 million is 55% mtg. and 45% bank loans. Some 32% of funds float with market rates. Bank lines total \$14 million. **Sponsor:** Henry S. Miller Co., Dallas real estate company.

Results & Outlook: May quarter results were hurt mainly by a drop in gross revenues although a \$0.05 per share gain on sale of real estate helped boost earnings and dividends. Trust expertise in its Texas home market has enabled it to continue to earn money and pay dividends. Problem loans have been well controlled as a result. Modest growth in portfolio should enable Miller to continue its earning record but any near-term improvement will be modest. Shares maintain their 3 ranking based on portfolio quality, management capability and future growth prospects. (VCK)

SUBSCRIBERS ASK: HOW SHOULD A TRUST PORTFOLIO BE ALLOCATED?

Q. Should I establish a trust portfolio along the following lines? 1) 70% in three sound trusts, 2) 20% with mostly decent holdings and longer term workout possibilities and 3) 10% speculative which will come through or liquidate.

A. We go along with the thrust of your thinking but would alter these concepts to fit market conditions. Something of a two-tier market has evolved in trusts with the soundest being well acknowledged and selling for relatively low yields, 8-10%. We would therefore cut this group down to 50% or less choosing from General Growth, Federal, First Union (including converts), Washington, ConGen, Equitable, MONY and MassMutual, the latter a stickout in relative value. Probably the best market values longer term are secondary but still solid trusts into which we put nearly 50%: JMB Realty, ICM Realty, Property Capital, Investors Realty, Sutro, Realty ReFund, Fidelco, Lomas & Nettleton, and North American. Timing is important here with the last two strictly short-term lenders and money market vulnerable. Yields are about 15% here. We are not inclined to a third group of rank speculation except for trading. Our third group would be highly likely survivors with key qualities going for them but are something of sleepers as Mortgage Growth, Security, U.S. Realty, etc.